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THE IMPORTANCE OF IRANIAN AND MIDDLE EAST OIL
TO WESTERN EUROPE UNDER PEACETIME CONDITIONS

I. The Problem:

To estimate the importance of (a) Iranian oil production and (b) total Middle East oil production to Western Europe in time of peace.

II. Assumptions:

That access to (a) Iranian oil production, and (b) total Middle East oil production is denied to the Western Powers by means other than war.

III. Discussion: (See Enclosure A).

IV. Tables: (See Enclosure B).

V. Conclusions:

1. The amount of crude oil and refined products now exported from Iran could be derived from other areas by small increases in crude production and by fuller use of available refining capacity. At the rates of consumption and levels of prices prevailing at the end of 1950, the extra annual dollar charge to Europe of procuring this amount of oil elsewhere would be about \$700,000,000.*

2. Loss of Iranian oil production and of the refinery at Abadan would temporarily have an adverse effect upon Western European economic activity, and would impose severe financial losses particularly upon the British, who control all the oil production of the country. Although the effect of the loss of Iran on the volume of petroleum which could be made available to Western Europe might be overcome in a relatively short time by developing reserves and building refineries elsewhere, the financial effects would be overcome slowly, if at all.

*Figures in this paper representing estimates of extra annual dollar costs and of the extent of oil shortages which would result from a loss of Iranian or Middle Eastern oil are indicative rather than exact. They will hold true as given only as long as oil prices stay at the levels of late 1950, and oil production and consumption continue at the rates currently estimated for the fiscal year 1950-51. The general effect of the rearmament programs in the US and in Western Europe will presumably be to raise the consumption of oil, and probably also to raise its price. These factors would tend to make the oil of the Middle East more important to the western economies, and to cause its loss to be even more severely felt than is indicated by the figures cited in this paper.

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3. If all Middle East oil production were to be lost, a cutback of about 10 percent in the total oil consumption of the non-Soviet world would have to be imposed, even after a maximum practicable increase of production from other sources. This would call for substantial rationing in the United States as well as elsewhere. International allocation would be required. At the price level of late 1950 a net increase in dollar requirements of from \$1 to \$1.2 billion would occur if Western Europe, after a cutback of 10 percent in its consumption, were to procure from alternative sources an amount of oil sufficient to make up for the loss of Middle East imports.

4. It is estimated that if a cutback of 10 percent from present levels of oil consumption were imposed on Western Europe, it would permit maintenance of industrial production at approximately the levels of late 1950, and of transportation at the extreme minimum necessary for that purpose. No appreciable expansion of industry, whether for normal economic development or for rearmament, would be possible. Rationing even to reduce consumption by 10 percent would present great difficulties in time of peace.

5. No way can be foreseen at present by which a satisfactory adjustment, over a longer period of time, could be made to the total loss of Middle East oil, unless new reserves are proved elsewhere, or new sources of energy developed. Western Europe therefore would not be able to compensate for the loss of Middle East oil save by profound changes in its currently planned economic structure.

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